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SUBJECT: LINES DRAWN WITHIN EU OVER CCS

REF: A. BRUSSELS 1689
[1](#)B. BRUSSELS 1770

[1](#)1. One component of the EU's Climate and Energy Package of legislative proposals is to promote the development and deployment of clean coal technologies through the principle of carbon capture and storage (CCS). The proposal calls for the construction of 10-12 pilot projects by 2015, to facilitate deployment of CCS-enabled industries by 2020. Given the reliance on coal for EU power generation (30.3% in 2005), and the plans by many member states to shut down nuclear power plants and open over 50 new coal plants across the EU by 2015, there is widespread support for the use of CCS to reduce greenhouse gas (GHG) emissions. However, the EU is currently at an impasse as to how these pilot projects will be funded.

[1](#)2. On November 18, the European Parliament declared that "direct financial commitment is necessary in order to ensure that 12 demonstration facilities are constructed." It has proposed that 500 million credits (about 11 billion Euros) be allotted under the EU's emissions trading scheme (ETS) to finance the CCS pilot projects. These credits would be taken from a pool of emissions allowances established by the EU for new power plants and factories that would enter the ETS scheme between 2013-2020. (Note: The EU is also grappling with how to distribute these allowances among member states. End note.)

[1](#)3. Parliament's proposal has generated opposition from several member states, notably Poland. Poland, which currently uses coal for over 90% of its power generation, has been one of the most vocal. Poland claims that as its industries grow, they will stand to benefit from the pool of ETS allowances for new entrants. Thus, it does not want the pool to be reduced for CCS projects. Instead, Polish official has said that funding should instead come from the EU's research and development fund. Other opponents contend that too much is being allocated for unproven technologies or that member states should control allocation of ETS revenues. The two member states most supportive of using the allowances for new entrants are the UK and the Netherlands, both service-based rather than manufacturing economies, which would be unlikely to benefit from the new entrants allowance pool.

[1](#)4. In an attempt to reach a compromise, the French Presidency has proposed the allocation of 100-200 million allowances (approximately 2.2 - 4.35 billion Euros) be available for CCS pilot projects until the end of 2015. Under the French proposal, support would be provided to projects that have "verified avoidance of CO2 emissions," and no project would be eligible to receive more than 10% of the total allowances available.

15. In response, EP CCS Rapporteur Chris Davies (UK-ALDE) wrote the French Deputy Permanent Representative that the proposal seems "designed more with a view to securing support in the Council than of delivering a mechanism that will (lead to construction of projects)." Davies cited an IEA report that estimated construction of 20 CCS projects would require 20 billion Euros in subsidies and an internal EU estimate that 7-12 billion Euros would be need to bridge the funding gap for the EU's 10-12 projects: "It must be clear that the use of 100-200 million allowances proposed will be hopelessly inadequate." Davies also criticized the 2015 deadline. He said most projects would not be operational until 2015 and thus would only have a few months benefit from the scheme. In order to be effective, he wrote the allowances must be available until 2015. On the 10% limit, Davies said some CCS technologies are more capital intensive than others. He wrote if "the objective is to test a wide range of technologies . . . the upper limit should () be raised to 20%.

16. Comment: Both the French and the Commission have committed to finalizing the Climate and Energy Package this year (see reftels for details on the Package), and recent press reports indicate that an extraordinary Council may be called on December 27, if it is not passed by then. Davies has been one of the EU's biggest proponents for CCS, and as Parliament's rapporteur, holds significant power. The French will likely be working hard to strike a balance between Davies and the member states over the next month. Even if a deal is struck, industries have stated that they need incentives up front, not just after the technology is perfected.

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